

TESTIMONY BY KANOE MARGOL
INTERIM EXECUTIVE DIRECTOR, EMPLOYEES' RETIREMENT SYSTEM
STATE OF HAWAII

TO THE HOUSE COMMITTEE ON FINANCE
ON
SENATE BILL NO. 1090, S.D. 2, H.D. 1

APRIL 1, 2015, 2:00 P.M.

RELATING TO THE EMPLOYEES' RETIREMENT SYSTEM

Chair Luke, Vice Chair Nishimoto and Members of the Committee:

S.B. 1090, S.D. 2, H.D. 1 proposes to amend Section 88-103.7, Hawaii Revised Statutes (HRS), which requires departments of the State and counties to provide payroll and personnel information electronically to the Employees' Retirement System (ERS). This proposal ultimately benefits the ERS membership by requiring the employers to provide ERS the timely and accurate information needed in order for the ERS to promptly pay retired state and county employees their full retirement benefits. The bill also provides an economic incentive for employers to cooperate with the ERS.

When state and county employees retire, they are paid an estimated retirement benefit by the ERS until the system receives and audits the employees' final personnel and payroll records. The estimated benefit is usually less than an employee's actual benefit. If the ERS receives personnel and payroll records that are late, incomplete, or in a format that requires manual entry into their computer system, "finalization" and payment of retirants' benefits are delayed. This proposal specifies that, in addition to allocating payments to the periods payments are earned and specifying the purpose or nature of the payments, the employers are required to "indicate any changes or errors in payments that require correcting or updating." If the State or counties do not provide the ERS with payroll and personnel information in the format required, they would be required to pay their employer contributions at the beginning of the following fiscal year (rather than on a monthly basis) in which the failure occurred. Any unpaid amounts would be subject to additional interest based on a rate equal to the investment yield assumption of the ERS.

Should it be enacted, the effective implementation date of S.B. 1090, S.D. 2, H.D. 1 is extended to July 1, 2020, thereby allowing time for employers to plan, fund and upgrade their reporting

systems to comply with ERS requirements. In the interim, the ERS shall annually report to the Legislature on the progress of State and County departments and agencies on their efforts to comply with Section 88-103.7, HRS.

The Board of Trustees of the Employees' Retirement System supports this bill.

Thank you for the opportunity to provide testimony on this important measure.



STATE OF HAWAII
DEPARTMENT OF EDUCATION
P.O. BOX 2360
HONOLULU, HAWAII 96804

Date: 04/01/2015
Time: 02:00 PM
Location: 308
Committee: House Finance

Department: Education

Person Testifying: Kathryn S. Matayoshi, Superintendent of Education

Title of Bill: SB 1090, SD2, HD1 RELATING TO THE EMPLOYEES' RETIREMENT SYSTEM.

Purpose of Bill: Requires State and counties to furnish payroll and personnel transaction information to the Employees' Retirement System in the required format. Requires the State or county to pay to the system in a lump sum at the beginning of the fiscal year the amount equal to the employer contributions payable by the department or agency, if a department or agency fails to provide the information in the required format. Requires unpaid amounts to bear interest. Requires the Employees' Retirement System to submit annual progress reports. (SB1090 HD1)

Department's Position:

The Department supports the intent of SB1090, SD2 HD1, but the requirements would overburden the Department's existing resources. Also, the penalties for the Department's inability to furnish the system with the information in the format required would cause the Department to pay an estimated \$180 million.

The Department's human resource data is currently fed electronically as required. However, if the System changes format requirements, substantial reprogramming would be required. This would need to be done at a cost to taxpayers to update the programming.

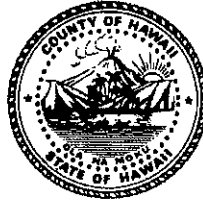
DAGS processes payroll for the Department. The Department provides payroll information to DAGS in the manner and format required by the DAGS Payroll System. DAGS generates pay checks and pay statements for approximately 21,000 full time employees and upwards of 19,000 part time employees each pay period from the information provided from the Department.

The Department's payroll is completely manual. Payroll changes and adjustments are manually calculated on 5x8 payroll index cards (Payroll Adjustment Card) each pay period. The adjusted gross pay is then manually posted to the paper DAGS Payroll Change Schedules (PCS) and

Payroll Master Card (5x8 index card that records pay history for each employee of the Department). The PCS is then manually balanced and submitted to DAGS Payroll. All pay changes noted on the PCS are manually data entered by ICSD CADES into the DAGS Payroll System. Pay checks and statements are then generated by DAGS each pay day.

Converting the data for tens of thousands of manual payroll data cards to an electronic data capture system to provide the level of details required for compliance with SB 1090, SD 2 HD 1, while continuing to process payroll through the DAGS Payroll System, will require extensive programmatic development and testing, and process re-engineering. Due to the payroll calculation complexities and sheer volume of data to convert, substantial additional resources will be required for compliance and would be not be feasible at this time.

William P. Kenoi
Mayor



Deanna S. Sako
Director

Lisa K. Miura
Deputy Director

County of Hawai'i

Finance Department

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LATE

March 31, 2015

The Honorable Sylvia Luke, Chair
and Members of the House Committee on Finance
Hawai'i State Capitol
415 South Beretania Street, Room 308
Honolulu, Hawai'i 96813

RE: Senate Bill 1090, SD 2, RELATING TO EMPLOYEES' RETIREMENT SYSTEM

Aloha Chair Luke and Committee Members:

The County of Hawai'i understands the intent of Senate Bill 1090, SD2, is to mandate that the Employees' Retirement System (ERS) require any department or agency of the State or counties to furnish to the system certain payroll and personnel transaction information, including any changes or errors in payments that require correcting or updating, by a specified deadline and in a specific manner. If the agency fails to provide the information by the required due date or in the required electronic format, the employer must pay an amount equal to the employer contribution from the year of failure. The payment must be made July 1st of the subsequent year or the amount will also be subject to interest. The ERS is not allowed any discretion in penalizing departments or agencies for failures, regardless of the circumstances.

The County of Hawai'i recognizes the importance of reporting all information, including any changes or errors in payments regarding payroll and personnel transactions, and we currently file information and pay in a timely manner.

Under the proposed legislation, the mandated penalty for late reporting or failure to use the specified electronic format would burden the County with a large advance payment. This is a particularly harsh penalty for what might be a single, excusable delay in reporting.

It is difficult for the County to know if it will be possible to comply with the required electronic format for changes and corrections, as we are not aware of the specific details. The County uses third party software for human resources and payroll processes, so changes require funding and time.

In July 2014, we requested help of the ERS to comply with this measure. We followed up several times with emails and phone calls. When we received their response in March 2015 (9 months later), they were not yet ready to give us guidance. We strongly oppose this measure, if the ERS cannot be more helpful and responsive. We cannot update our system in 180 days, if responses from the ERS take longer than that.

Maintaining language allowing ERS discretion in imposing a penalty for any failure to comply fully with this section would provide for reasonable decision making and fair penalization. The effective date of July 1, 2020 would be helpful in allowing us to get responses from the ERS.

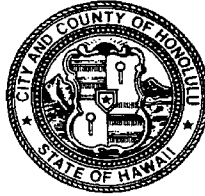
We respectfully urge the committee to reject Senate Bill 1090, SD 2 in its current form. Thank you for your consideration.


Deanna Sako
Director of Finance

DEPARTMENT OF HUMAN RESOURCES
CITY AND COUNTY OF HONOLULU
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LATE

KIRK CALDWELL
MAYOR



CAROLEE C. KUBO
DIRECTOR

NOEL T. ONO
ASSISTANT DIRECTOR

April 1, 2015

The Honorable Sylvia Luke, Chair
and Members of the Committee
on Finance
The House of Representatives
State Capitol, Room 309
415 South Beretania Street
Honolulu, Hawaii 96813

Dear Chair Luke and Members of the Committee:

SUBJECT: Senate Bill No. 1090 SD2 HD1 (Comments)
Relating to the Employees' Retirement System

Senate Bill 1090 SD2 HD1 would compel the City (and other employers) to furnish payroll and personnel transaction information to the Employees' Retirement System ("ERS") in a particular electronic format, and penalize employers who do not comply. While the City and County of Honolulu ("the City") supports the intention of facilitating prompt payment of retirement benefits, we **cannot support** this measure in its present form, because of the high degree of uncertainty surrounding implementation of this bill. The City offers the comments and respectfully offers an alternate draft (enclosed) which would resolve the City's concerns, for this committee's consideration.

A. The Bill Lacks Specificity As To What Constitutes "Electronic Format" And Does Not Appear To Specify Only *Prospective* Application

This bill seeks to facilitate prompt payment of retirement benefits to retirees and their beneficiaries by requiring that employers furnish payroll and personnel transaction information to ERS in an (unspecified) electronic format. The City recognizes the importance of prompt payment of retirement benefits. Indeed, **the majority of City-supplied information is *already* furnished to the ERS in electronic format.** In addition to electronic format, however, the City also currently provides some types of information and documents in a non-electronic format; for example, data that precedes the City's implementation of an electronic records-keeping systems is *only* available in paper form. Currently, the ERS accepts documents that pre-date electronic record-keeping in paper format or in scanned pdf format. This bill, however, would *require* the ERS to accept information *only* in an (as yet unspecified) electronic format. The City asks that the bill be amended to specify that the requirement applies only to *prospective* information, and to specify that scanned pdf copy would be an acceptable "electronic format."

B. 180 Days May Not Be A Sufficient Period For Employers To Comply With Format Changes

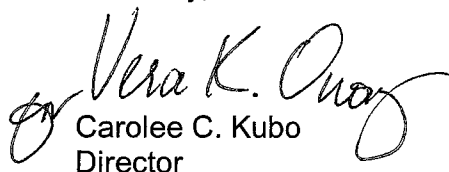
As noted above, the bill does not specify what the "required" format will be. Even if the format currently being used for employee information is to become the "required" format, in the event of future format changes, 180 days may not be a sufficient time period for the City to comply with any changes. Interfacing between two separate electronic records-keeping systems is always a challenge. In the event that the ERS changes to a system that is incompatible with the City's, the City may need time to determine whether changes to its own record keeping system, additional staffing, and/or other resources, may be needed to comply with this law and avoid penalty. In the event that additional resources are needed, delays may occur as the City would need to go through a budget process to obtain the needed resources.

C. The ERS Should Be Permitted Broader Authority To Waive Penalties

The bill provides for penalties against employers who fail to provide information in the (as yet unspecified) "required" format. Waiver of the penalties are allowed only under the extremely limited circumstances of "unforeseen system failure, natural disaster, or other unforeseen event." The City submits that broader discretion should be granted to the ERS to determine when a waiver of penalties may be warranted. For example, the ERS may find it acceptable to continue to receive documents in paper format, if the documents do not exist in electronic format. Furthermore, in the event of a significant format change that is incompatible with the City's record-keeping system, the ERS may find it appropriate to waive penalties until a compatible solution is found. Greater flexibility should be given to the ERS to determine whether penalties are appropriate, in order to avoid a waste of taxpayer-money.

In light of the above concerns, we cannot support this measure in its present form and respectfully urge this committee to adopt our enclosed amendments. Thank you for the opportunity to comment.

Sincerely,


Carolee C. Kubo
Director

A BILL FOR AN ACT

RELATING TO THE EMPLOYEES' RETIREMENT SYSTEM.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF HAWAII:

SECTION 1. Section 88-103.7, Hawaii Revised Statutes, is amended to read as follows:

"~~[+]§88-103.7[+]~~ **Information from the State and**

counties. (a) To fulfill its responsibilities under this chapter, the system ~~may~~ shall require any department or agency of the State or counties to furnish information to the system to carry out the purposes of this chapter. The system ~~may~~ shall specify the acceptable format(s) in which the information shall be furnished. Without limitation of the foregoing, the system ~~may~~ shall require that information created after the effective date be furnished in electronic format(s). In the case of information created prior to July 1, 2115, the format(s) in which the records exist shall be deemed acceptable. ~~and that The system may require that information with respect to payroll and personnel transactions:~~

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- (1) Allocate payments, including bonuses, salary adjustments, payments for compensatory time, and workers' compensation, to monthly or other periods as requested by the system; [and]
- (2) Specify the purpose or nature of the payment[-]; and
- (3) Indicate any changes or errors in payments that require correcting or updating.

(b) All departments and agencies of the State or counties shall furnish the information required by the system pursuant to this section in the-a format required-byacceptable to the system. The system shall notify each department or agency of the State or counties that is required to furnish information to the system of any change in the-required-acceptable format(s) for the information. Each department or agency shall have one hundred eighty days from the date of the receipt of the notice of a change in the-requiredacceptable format(s) to update the format in which the required information is provided to the system. In the event that one hundred eighty days is insufficient for a department or agency to make changes, the system shall allow a longer interval of time for the department or agency to update the format in which the required information is provided to the system.

(c) If a department or agency of the State or county fails to furnish the system with the information required pursuant to

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this section in ~~the~~ an acceptable format ~~required by the system~~,
the State or county shall pay to the system, on the first day of
the fiscal year following the fiscal year in which the failure
to furnish the required information occurred, an amount equal to
the employer contributions payable by the State or county,
relative to the department or agency that is not in compliance
with this section, during the fiscal year in which the failure
to furnish the required information occurred. This amount shall
be applied to contributions required under section 88-124 for
the State and section 88-126 for the counties.

(d) If full payment of the amount required under
subsection (c) is not made by the State or county on the first
day of the fiscal year, then:

- (1) Any unpaid amounts shall bear interest at the rate
equal to the investment yield rate assumption in
effect for actuarial valuations of the system; and
- (2) Any payments received by the system for the State or
county, except for payments made pursuant to sections
88-46, 88-100, and 88-326, shall be applied first to
accrued interest and then to the amount required to be
paid under subsection (c).

(e) The system ~~may~~ shall have broad discretion to waive
the requirements of subsections (c) and (d) if the system
determines, in its sole discretion, that the failure by the

department or agency to furnish the required information in the required format is the result of an unforeseen system failure, natural disaster, or other unforeseen, unavoidable, or otherwise excusable event(s).

(f) The system shall annually submit to the department of budget and finance and the legislature, not later than twenty days prior to the convening of each regular session, a report that details the following for the current fiscal year:

- (1) Any department or agency of the state or counties that failed to comply with this section; and
- (2) Any amounts required to be paid under subsection (c), including the anticipated amounts payable in the upcoming fiscal year, and identification of any state budget programs that may be affected."

SECTION 2. The employees' retirement system shall submit to the legislature reports on the progress of state and county departments and agencies in their efforts to comply with section 88-103.7, Hawaii Revised Statutes, as amended by this Act, by July 1, 2020. The reports shall be submitted at least twenty days prior to the convening of the regular sessions of 2016, 2017, 2018, 2019, and 2020.

All state and county departments and agencies shall cooperate with the employees' retirement system when the system makes reasonable requests for information.

SECTION 3. Statutory material to be repealed is bracketed and stricken. New statutory material is underscored.

SECTION 4. This Act shall take effect on July 1, 2115; provided that section 2 shall take effect upon approval.

Report Title:

Employees' Retirement System; Payroll and Personnel Transactions

Description:

Requires State and counties to furnish payroll and personnel transaction information to the Employees' Retirement System in the required acceptable formats, including electronic format for all information created after the effective date. Requires the State or county to pay to the system in a lump sum at the beginning of the fiscal year the amount equal to the employer contributions payable by the department or agency, if a department or agency fails to provide the information in the required acceptable format. Requires unpaid amounts to bear interest. Requires the Employees' Retirement System to submit annual progress reports. Requires the Employees' Retirement System to furnish to the State and counties any employee information required to fulfill employer obligations under Federal or State laws or regulations. (SB1090 HD1 SD2)

The summary description of legislation appearing on this page is for informational purposes only and is not legislation or evidence of legislative intent.